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SIPDIS

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SUBJECT: TURKISH EXPORTS TO IRAQ FLOURISHING

1. (SBU) Summary: Discussions with Turkish business executives and economists support the Foreign Trade Undersecretariat's reports that Turkish exports to Iraq are booming. In fact, some in the private sector argue that actual exports exceed official figures, with one prominent economist speculating that the enhanced flows are buttressing the Turkish lira. Turkish truckers are adding to their earnings by taking advantage of the huge disparity between Turkish and Iraqi fuel prices to engage in "creative" fuel trade. The state petroleum company (TPAO) told us last week that they had begun shipping fuel to Iraq by rail via Syria, and hope to ship as much as 10,000 tons per week in the coming months through this route. End Summary.

2. (SBU) Turkish foreign trade officials have stated publicly on several occasions that Turkish exports to Iraq are booming, and should hit \$1 billion this year, equal to the pre-Gulf War peak, despite minimal sales in the first 4-5 months. They predict exports of \$1.5-2 billion in 2004. Recent discussions with Turkish economists and business executives support this optimistic view. For example, Murat Sarayli, President of the Turkish Young Businessmen's Association and a veteran of the Iraq trade, said nearly all of his association's members are engaged in some form of trade with Iraq. Some -- like Sarayli -- are participating in the extensive fuel trade. Others are shipping consumer goods and food, taking advantage of what they say is a mini-consumption boom among Iraq's middle class.

4. (SBU) Bender Securities economist Emin Ozturk pointed to data and anecdotal evidence suggesting that Turkish exports exceed official figures, perhaps by a significant amount. He noted that the major conglomerate Koc Holdings has predicted 2003 exports to Iraq would hit \$265 million. However, those figures do not reflect dramatic increases in sales to Koc's local distributors in the Southeast. While some of this increase probably is due to higher incomes in the area (courtesy of the Iraq trade), Ozturk speculated that much of it involved goods that the distributors are shipping onward into Iraq,

5. (SBU) Ozturk said Turkey's recent GNP figures also suggest large amounts of unreported exports to Iraq. He noted that those figures indicate a huge increase in inventories of manufactured goods that simply could not be explained by domestic economic developments. The most plausible explanation, he believes, is that some of these "excess" goods are being shipped to Iraq, probably by small, family-run trucking businesses that cannot be bothered with the paperwork and hassle of reporting exports. The fact that Turkish banks in the Southeast continue to report receipts of substantial quantities of small-denomination U.S. currency lends support to this theory, in Ozturk's view. The economist added that these unrecorded exports (and the resulting flow of dollars into Turkey) could help explain the Turkish lira's continuing strength.

6. (SBU) Murat Sarayli and Dow Jones' Selim Atalay confirmed reports that Turkish fuel truck drivers are adding to their earnings through "creative" trading practices. According to Sarayli, a typical driver might load 10,000 tons of benzene at the Turkish port of Iskenderun for delivery in Iraq. However, before reaching Habur Gate, the driver would sell 1,000 tons at a local gas station (at relatively high Turkish prices). He would then take on a 1,000 tons of non-fuel weight -- typically in the form of lead-weighted spare tires or heavy steel bumpers -- so that the truck's weight would appear correct at the border crossing. Once in Iraq, the driver would buy an additional 1,000 tons of fuel locally (at very low Iraqi prices) and then complete his delivery. Most drivers also fill the truck's overcapacity gas tanks with cheap Iraqi gas for the drive back, and sell the excess

product once back in Turkey. Sarayli said the disparity between Turkish and Iraqi fuel prices made these transactions incredibly attractive to the relatively poor truck drivers, and suggested there was no way -- realistically -- to stop or control them.

17. (SBU) Meanwhile, State Petroleum Company (TPAO) Director General Osman Saim Dinc told us last week that his company began shipping fuel to Iraq by rail via Syria on December 16, based on an agreement with the Iraqi Oil Ministry and "reasonable" fees charged by the Syrians. Dinc said the company would ship 4,000 tons of fuel per week initially, but hoped to raise that to 10,000 tons per week over the next few months. Turkish officials have been talking for some time about using this line, but this is the first time we have received confirmation that it is being used.

EDELMAN